

04/14/17 Economic Theory Seminar

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“Dynamic Information and Strategic Trading”

(with Bradyn Breon-Drish)

Abstract

We develop a continuous-time Kyle (1985) model where the strategic trader dynamically chooses when to acquire costly information about an asset's payoff, instead of being endowed with this information. We show that whether the market maker observes the acquisition decision plays an important role. When information acquisition is observable, there exists an equilibrium in which the trader's acquisition decision follows a pure strategy and delay, relative to a naive NPV rule, is optimal. In contrast, when the acquisition decision is not observable, we show that an equilibrium with smooth trading and a pure acquisition strategy cannot exist. We also rule out the existence of a class of equilibria with smooth trading in which the trader mixes between acquiring information and not.

Keywords: Dynamic Information Acquisition, Kyle Model, Strategic Trading

JEL Classification: D82, D84, G12, G14